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Message Text

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11
ACTION EA-09

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 AGR-05 (ISO) W
---------- 093646
R 230355Z AUG 76
FM AMEMBASSY JAKARTA
TO SECSTATE WASHDC 6320
INFO AMEMBASSY BANGKOK
AMEMBASSY KUALA LUMPUR
AMEMBASSY MANILA
AMEMBASSY SINGAPORE
USLO PEKING
AMCONSUL MEDAN
AMCONSUL SURABAYA

C O N F I D E N T I A L JAKARTA 10961

E.O. 11652: GDS
TAGS: ECON, EFIN, EINV, ID
SUBJECT: PRESIDENT SUHARTO'S STATE ADDRESS--COMMENTS ON ECONOMIC ISSUES

REF : (A) JAKARTA 10748, (B) JAKARTA 10876

1. PRESIDENT'S SPEECH APPROPRIATELY EMPHASIZED PROGRESS IN ECONOMIC DEVELOPMENT, BUT WITH SOMEWHAT MORE RHETORIC THAN DATA. REFLECTING ORIENTATION OF TECHNOCRAT PLANNERS, PRESIDENT NOTED THAT GNP HAS BEEN INCREASING AT ANNUAL RATE OF 7 PERCENT, AND, COMPARED WITH DOUBLING OF NATIONAL INCOME 1965-75, HE NOTED PERIOD 1960-65 REGISTERED AN INCREASE OF ONLY 1.7 PERCENT ANNUALLY. (PER CAPITA GNP FIGURE REF A WAS IN ERROR. PRESIDENT WAS CITING PER CAPITA INCOME NOT REPEAT NOT GNP.)

2. SPEECH LEANED TOWARDS ACHIEVEMENTS IN SOCIAL-AGRICULTURAL-RURAL SECTORS BUT WITH TOTAL ABSENCE OF FIGURES.
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EVIDENCE OF IMPROVED QUALITY OF LIFE IN VILLAGES AND

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IMPROVED INCOME DISTRIBUTION, ACCORDING TO PRESIDENT, WAS OWNERSHIP OF BICYCLES, MOTORBIKES, TRANSISITOR RADIOS, WRISTWATCHES AND VEHICLES. TYING HIS REMARKS TO REPLITA II, HE GAVE STRONG SUPPORT TO FAMILY PLANNING PROGRAM AND REALISTIC APPRAISAL OF ITS IMPACT THUS FAR. AGAIN REFERRING TO INCOME DISTRIBUTION HE CITED EXCHANGE OF VOCATIONAL TRAINING CENTERS AND REFERRED TO NEED FOR TRAINED PERSONNEL IN CONNECTION WITH GOVERNMENTAL INTEREST IN "LARGE-SCALE INDUSTRIES" ADDING "IT IS THEREFORE NECESSARY THAT THE PROCESS OF INDONESIANIZATION IN FOREIGN OR JOINT ENTERPRISES BE ACCELERATED."

3. HEAVY RURAL ORIENTATION ALSO REFLECTED IN REFERENCES TO INPRES (PRESIDENTIAL INSTRUCTION) PROJECTS, BUUDS AND KUDS. HE CITED CO-OPS, BUT NUMBERS RELATE ONLY TO BUDDS (3,5000), AND HE DID NOT DOCUMENT GROWTH OF CO-OPS WITH ANY SUPPORTING DATA.

4. HE RELATED OIL NEGOTIATIONS TO STATE BUDGET GROWTH AND TIED GOVERNMENT'S EFFORTS TO LEVY "MORE REASONABLE TAXES AND DUTIES, IN THE SENSE THAT THE RICH SHOULD GIVE BIGGER CONTRIBUTIONS TO DEVELOPMENT" TO "PRINCIPLE OF JUSTICE." CONTINUING WITH JUSTICE THEME, HE NOTED THAT AS A SOVEREIGN STATE "WE ARE ENTITLEDTO RECEIVE A FAIRER SHARE OF PROFITS" FROM FOREIGN OIL COMPANIES. THIS THEME CONTAINED SOLE ECONOMIC REFERENCE TO NORTH-SOUTH DIALOGUE WHEN HE SAID "IT IS THIS VERY PRINCIPLE OF JUSTICE, AS THE BASIS OF OUR NATIONAL ECONOMY WHICH WE ARE STRIVING FOR, AND THIS STRUGGLE IS CONGRUENT WITH THE REATER STRUGGLE TO BUILD A NEW WORLD ECONOMIC ORDER...".

5. PRESIDENT SAID THAT THESE EFFORTS DO NOT CHANGE GOI'S VIEWS TOWARDS FOREIGN CAPITAL INVESTMENT NOTING "WE STILL WELCOME FOREIGN CAPITAL INVESTMENT, WHICH WE STILL NEED AND CONTINUE TO GIVE THEM A FAIR CHANCE TO DO BUSINESS, WHICH ALLOWS JUSTIFIABLE PROFITS FOR BOTH PARTIES, NAMELY THE FOREIGN BUSINESSMEN AND THE INDONESIAN PEOPLE. REFERRING TO GOI EFFORTS TO DEVELOP "INDIGENOUS ENTREPRENEURSHIP," HE AGAIN SAID GOI WELCOMES FOREIGN CONFIDENTIAL

CAPITAL INVESTMENTS TO HELP MEETTHE NEED FOR SKILLS AND CAPITAL. HE ISSUED A WARNING, HOWEVER, THAT IT IS GOI DUTY TO SEE TO IT THAT SUCH INVESTMENT DOES NOT CON-STITUTE A DANGER AND THAT GOI WILL NOT TOLERATE ITS NATIONAL ECONOMY BEING TAKEN OVER BY OTHERS. IN WHAT APPEARS TO HAVE BEEN AN ELLIPITICAL REFERENCE TO DISAP-PEARANCE OF NEW APPLICATIONS FOR FOREIGN INVESTMENT, HE SAID "I AM NOT STATING ANYTHING NEW, IT IS IN FACT A

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STRATEGY AND A COURSE WE HAVE DECIDED FROM THE VERY
OUTSET," NOTING THIS WAS NOTHING MORE THAN A CLARIFI-
CATION OF THE FOREIGN CAPITAL INVESTMENT LAW.

6. EMBASSY BELIEVES THAT THIS WAS ACKNOWLEDGEMENT THAT
SOME OF MURKINESS IN CURRENT INVESTMENT CLIMATE STEMS
FROM THE PRESIDENT'S CALL FOR MODIFIED INVESTMENT OB-
JECTIVES IN HIS JANUARY 1974 POLICY STATEMENT FOLLOWING
JAKARTA RIOTS. IN A NOD TOWARDS VIEWS OF BKPM VICE
CHAIRMAN SOEHOED'S CONSTANT THEME THAT GOI MUST ESTABLISH
A "POSITIVE LIST" OF SECTORS OPEN TO PRIVATE FOREIGN
INVESTMENT, PRESIDENT SAID "WHAT WE MUST DO IS SET THE
PRIORITIES OF BUSINESS REQUIRING ENCOURAGEMENT...."
HE ALSO NOTED THAT SECTORS WHICH WERE OPEN PREVIOUSLY
ARE NOW CLOSED BECAUSE THERE IS SUFFICIENT PRODUCTION
IN THOSE SECTORS.

7. REF B COMMENTED ON POLITICAL INTERPRETATION OF
FOREIGN AID AND PRESIDENT ALSO OBSERVED THAT IGGI ASSIST-
ANCE IS SOLE SOURCE OF SOFT TERMS WHICH "SOCIALIST
COUNTRIES" DO NOT PROVIDE. CONTINUING THIS THEME HE
NOTED THAT SOFT TERMS PERMIT A LONG-TERM PAYBACK WITH A
MINIMUM BURDEN ON FUTURE GENERATIONS AND THAT BURDEN IS
PAID FOR OUT OF THE YIELD OF THE PROJECTS FUNDED BY
SOFT-TERM ASSISTANCE.

8. IT IS INTERESTING THAT ONE OF FEW PLACES WHERE
PRESIDENT USED STATISTICS WAS RELATIVE TO FOREIGN AID.
HE NOTED THAT SINCE 1967 INDONESIAN HAS RECEIVED SOME
$8.3 BILLION IN ASSISTANCE AS CONTRASTED WITH 2.5 BILLION
UNDER SUKARNO. REFERRING TO DEBT RESCHEDULING OF 1970
HE USED FIGURES FROM BANK INDONESIA RATHER THAN THOSE
OF IBRD TO DEMONSTRATE EXPORT EARNING IMPROVEMENT
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RELATIVE TO ABILITY TO REPAY LOANS. HIS REFERENCE IN
THIS RESPECT TO "HUGH DEBTS OF PERTAMINA" WAS ONLY RE-
MARK ON THAT PROBLEM.

9. PRESIDENT'S REFERENCES TO GROUP OF 77, CIEC, OPEC
AND ASEAN WERE MORE IN TERMS OF GOI RELATIONSHIP TO
NON-ALIGNED MOVEMENT RATHER THAN NORTH-SOUTH DIALOGUE
(REF B).

10. IN REVIEWING MANPOWER SCENE, PRESIDENT ADOPTED VIEW
OF SOME IN GOI WHO SEE TRANSMIGRATION IN TERMS OF DE-
VELOPING OUTER ISLANDS RATHER THAN TO RELIEVE POPULATION
PRESSURES IN JAVA AND BALI, AND HE LINKED TRANSMIGRA-
TION TO EMPLOYMENT OPPORTUNITIES. HE ALSO NOTED GOI
FORMULATING REGUALTIONS TO IMPROVE "WELFARE SECURITIES"

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OF WORKERS, INCLUDING LABOR CONTRACTS, WORKERS" PENSIONS, SURVIVORS' BENEFITS, LIFE INSURANCE THROUGH JOINT WORKER AND EMPLOYER CONTRIBUTIONS. FOREIGN INVESTORS WERE AWARE OF GOVERNMENT PLANS IN THIS REGARD AND HAVE BEEN CONCERNED ABOUT COST IMPACT. INCLUSION IN PRESIDENT'S SPEECH UNDOUBTEDLY GIVEN IMPETUS TO IDEA.

11. OF PARTICULAR NOTE AND INTEREST TO FOREIGN PRIVATE SECTOR WAS HIS STRONG STATEMENT SUPPORTING ANTI-SMUGGLING EFFORTS AND CONDEMNATION OF CORRUPTION, AND IT WAS HERE THAT HE SAID "IT SHOULD ALSO BE UNDERSTOOD THAT THOSE ACCEPTING BRIBES AND THOSE OFFERING THE BRIBERY ARE EQUALLY GUILTY."

12. COMMENT: ON BALANCE IT WAS A REALISTIC EXPOSITION OF THE ECONOMIC SCENE WITH APPROPRIATE EMPHASIS ON DE-VELOPMENT EFFORTS IN RURAL AND AGRICULTURAL SECTORS RELATIVE TO INCOME DISTRIBUTION. GIVEN POSSIBILITY THAT PRESIDENT'S SPEECH COULD HAVE TAKEN DEMOGAGIC TURN IN ELECTION YEAR AGAINST FOREIGN INVESTMENT AND AID, SPEECH IS POSITIVE AND MODERATE IN TONE. GIVEN RECENT EXPERIENCES OF THE BUSINESS COMMUNITY HOWEVER, THOSE KNOWLEDGEABLE ABOUT INDONESIA WILL BE INCLINED TO "WAIT AND SEE" REGARDING POSSIBLE IMPROVEMENTS IN INVESTMENT CLIMATE.
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